



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
MCCRACKEN COUNTY
SHERIFF'S SETTLEMENT - 2000 TAXES**

July 24, 2001

**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
MCCRACKEN COUNTY
SHERIFF'S SETTLEMENT - 2000 TAXES**

July 24, 2001

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2000 Taxes for McCracken County Sheriff as of July 24, 2001. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Sheriff collected net taxes of \$17,439,990 for the districts for 2000 taxes. Sheriff distributed taxes of \$16,949,205 to the districts for 2000 Taxes. Taxes of \$857 are due to a fire district and refunds of \$81,357 are due to the Sheriff from the taxing districts.

Report Comments:

- The Sheriff Should Settle With The Taxing Districts For 1999 and 2000 Taxes
- The Sheriff Should Remit \$18,720 To The School Districts For Interest Earned On The Investment Of School Taxes
- The Sheriff Should Require The Depository Institution To Pledge Or Provide Additional Collateral Of \$13,273,525 And Enter Into A Written Agreement To Protect Deposits

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
SHERIFF'S SETTLEMENT - 2000 TAXES	3
NOTES TO FINANCIAL STATEMENT	5
COMMENTS AND RECOMMENDATIONS	11
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	17



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Danny Orazine, McCracken County Judge/Executive
Honorable Frank Augustus, McCracken County Sheriff
Members of the McCracken County Fiscal Court

Independent Auditor's Report

We have audited the McCracken County Sheriff's Settlement - 2000 Taxes as of July 24, 2001. This tax settlement is the responsibility of the McCracken County Sheriff. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in the Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As stated in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the McCracken County Sheriff's taxes charged, credited, and paid as of July 24, 2001, in conformity with the basis of accounting described in the preceding paragraph.

In accordance with Government Auditing Standards, we have also issued our report dated September 14, 2001, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Danny Orazine, McCracken County Judge/Executive
Honorable Frank Augustus, McCracken County Sheriff
Members of the McCracken County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The Sheriff Should Settle With The Taxing Districts For 1999 and 2000 Taxes
- The Sheriff Should Remit \$18,720 To The School Districts For Interest Earned On The Investment Of School Taxes
- The Sheriff Should Require The Depository Institution To Pledge Or Provide Additional Collateral Of \$13,273,525 And Enter Into A Written Agreement To Protect Deposits

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
September 14, 2001

MCCRACKEN COUNTY
FRANK AUGUSTUS, SHERIFF
SHERIFF'S SETTLEMENT - 2000 TAXES

July 24, 2001

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 2,205,096	\$ 2,316,256	\$ 6,245,526	\$ 2,933,374
Tangible Personal Property	391,655	451,705	1,061,378	1,271,831
Intangible Personal Property				572,163
Increased Through Erroneous				
Assessments	7,270	7,798	25,214	13,925
Franchise Corporation	313,876	323,128	551,978	
Additional Billings	1,040	1,109	4,828	3,171
Penalties	13,560	14,570	35,385	20,758
Adjusted to Sheriff's Receipt	5	53	31	26
	<u>5</u>	<u>53</u>	<u>31</u>	<u>26</u>
Gross Chargeable to Sheriff	<u>\$ 2,932,502</u>	<u>\$ 3,114,619</u>	<u>\$ 7,924,340</u>	<u>\$ 4,815,248</u>
<u>Credits</u>				
Exonerations	\$ 20,759	\$ 29,744	\$ 73,970	\$ 73,243
Discounts	43,348	46,195	122,740	80,845
Delinquents:				
Real Estate	57,205	59,748	137,043	76,093
Tangible Personal Property	5,188	4,905	9,138	17,316
Intangible Personal Property				5,353
Uncollected Franchise	121,426	125,493	153,023	
Bankruptcy Credit	13,081	9,830	23,894	36,757
Bill #29805	41	59	134	148
	<u>41</u>	<u>59</u>	<u>134</u>	<u>148</u>
Total Credits	<u>\$ 261,048</u>	<u>\$ 275,974</u>	<u>\$ 519,942</u>	<u>\$ 289,755</u>
Net Tax Yield	\$ 2,671,454	\$ 2,838,645	\$ 7,404,398	\$ 4,525,493
Less: Commissions *	<u>113,824</u>	<u>97,446</u>	<u>153,487</u>	<u>192,621</u>
Net Taxes Due	\$ 2,557,630	\$ 2,741,199	\$ 7,250,911	\$ 4,332,872
Taxes Paid	2,568,360	2,747,496	7,267,565	4,365,784
Refunds (Current and Prior Year)	<u>2,474</u>	<u>2,404</u>	<u>5,694</u>	<u>3,335</u>
(Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ (13,204)</u>	<u>\$ (8,701)</u>	<u>\$ (22,348)</u>	<u>\$ (36,247)</u>

MCCRACKEN COUNTY
 FRANK AUGUSTUS, SHERIFF
 SHERIFF'S SETTLEMENT - 2000 TAXES
 July 24, 2001
 (Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	9,311,860
4% on	\$	269,939
2% on	\$	7,134,459
1% on	\$	713,733

** Special Taxing Districts:

Library District	\$	(3,201)
Health District		(2,929)
Extension District		(1,010)
Mental Health		(1,096)
Concord Fire		(24)
Hendron Fire		(21)
Reidland Fire		(1,011)
Lone Oak Fire		(203)
West McCracken Fire		857
Lone Oak City		<u>(63)</u>

Due District or (Refunds Due Sheriff)	\$	<u><u>(8,701)</u></u>
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MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENT

July 24, 2001

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue, which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue, which are recognized when there is proper authorization. Taxes paid are uses of revenue, which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

MCCRACKEN COUNTY
 NOTES TO FINANCIAL STATEMENT
 July 24, 2001
 (Continued)

Note 2. Deposits (Continued)

As of July 24, 2001, the bank balances were fully insured or collateralized at a 100% level with collateral of pledged securities held by the Sheriff's agent in the Sheriff's name. However, as of January 11, 2001, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$13,273,525 of public funds uninsured and unsecured. In addition, the Sheriff did not have a written agreement with the depository institution securing the Sheriff's interest in the collateral.

The county official's deposits as of January 11, 2001 were:

	<u>Bank Balance</u>
Insured or collateralized with securities held by pledging depository institution in the county official's name	\$ 684,764
Uncollateralized and uninsured	<u>13,273,525</u>
Total	<u><u>\$ 13,958,289</u></u>

Note 3. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2000. Property taxes were billed to finance governmental services for the year ended June 30, 2000. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 21, 2000 through April 30, 2001.

Note 4. Interest Income

The McCracken County Sheriff earned \$46,694 as interest income on 2000 taxes. The Sheriff did not distribute the appropriate amount to the school districts as required by statute, and the remainder will be used to operate the Sheriff's office. As of September 14, 2001, the Sheriff owes \$18,720 of interest to the school districts.

Note 5. Sheriff's 10% Add-On Fee

The McCracken County Sheriff collected \$76,390 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Tax Escrow Account

The McCracken County Sheriff opened an escrow account in March 1998. The beginning balance as of June 1, 2000 was \$16,391. During the current year receipts of \$5,743 were deposited into the Escrow Account. Interest earned was \$1,239. The balance at July 24, 2001 was \$23,373; however \$3,886 is due back to the tax account for 1998 commissions.

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENT
July 24, 2001
(Continued)

Note 7. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Reported

The Sheriff should deposit any unrefundable duplicate payments in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After seven years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 2000 taxes, the Sheriff had \$749 in unrefundable duplicate payments. Therefore, the Sheriff should send a written report to the Treasury Department.

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COMMENTS AND RECOMMENDATIONS

MCCRACKEN COUNTY
FRANK AUGUSTUS, SHERIFF
COMMENTS AND RECOMMENDATIONS

As of July 24, 2001

STATE LAWS AND REGULATIONS:

1) The Sheriff Should Settle With The Taxing Districts For 1999 and 2000 Taxes

The audit of the McCracken County Sheriff's Settlement - 2000 Taxes reflects that the Sheriff is due refunds of \$81,347 from the taxing districts and owes \$857 to West McCracken Fire District. Our audit of the McCracken County Sheriff's Settlement - 1999 Taxes reflects that the Sheriff owes \$75,865 to the taxing districts and is due a refund of \$3,350 from the state.

Districts	1999 Taxes	2000 Taxes	Due Districts Or (Refunds Due Sheriff)
Common School District	\$ 40,446	\$ (21,979)	\$ 18,467
Concord Fire	1,002	(24)	978
County	20,626	(13,204)	7,422
Extension District	1,914	(1,010)	904
Health District	4,106	(2,929)	1,177
Hendron Fire	118	(21)	97
Library District		(3,201)	(3,201)
Lone Oak City	486	(63)	423
Lone Oak Fire	43	(203)	(160)
Mental Health	1,542	(1,096)	446
Paducah Junior College	2,109	(369)	1,740
Reidland Fire	828	(1,011)	(183)
State	(3,350)	(36,247)	(39,597)
West McCracken Fire	2,645	857	3,502
Totals	<u>\$ 72,515</u>	<u>\$ (80,500)</u>	<u>\$ (7,985)</u>

We recommend that the Sheriff settle with the taxing districts.

Sheriff's Response:

None.

MCCRACKEN COUNTY
FRANK AUGUSTUS, SHERIFF
COMMENTS AND RECOMMENDATIONS
As of July 24, 2001
(Continued)

2) The Sheriff Should Remit \$18,720 To The School Districts For Interest Earned On The Investment Of School Taxes

Pursuant to KRS 134.140(3), the Sheriff shall pay to the County Board Of Education and the City Board Of Education the proper share of interest earned on investment of school taxes. The proper share shall be determined by comparing the school tax to the total taxes collected and using that percentage as a factor. For the 2000 taxes, 41 percent of the interest earned is due the schools. Total interest earned was \$46,694 through July 24, 2001, and the schools' share would be \$19,102 less the Sheriff's collection fee of \$382 leaving \$18,720 payable to the schools. The Sheriff has not paid any interest to the schools leaving \$18,720 due at the date of this audit. Some of these funds have been submitted to the County as excess fees. The County owes \$17,108 back to the Sheriff's Tax Account for interest due to the school districts. The remaining \$1,612 is owed from the Sheriff's tax account. We recommend that the sheriff collect \$17,108 from the county and pay \$18,720 to the school districts in a timely manner.

Sheriff's Response:

An agreement between the Sheriff and Board of Education is recorded into records of the Fiscal Court. The interest payment per KRS 134.1410(3) void the above agreement. Beginning 2001 Property Taxes interest shall be paid to the Board of Educations and prior year interest paid to McCracken Co. Treasurer will be requested from The McCracken Co. Fiscal Court.

3) The Sheriff Should Require The Depository Institution To Pledge Or Provide Additional Collateral Of \$13,273,525 And Enter Into A Written Agreement To Protect Deposits

On January 11, 2001, \$13,273,525 of the Sheriff's deposits of public funds were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the \$100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). The Sheriff should require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. We also recommend the Sheriff enter into a written agreement with the depository institution to secure the Sheriff's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Sheriff's Response:

The financial Institutions did not secure as law require them to do and will no longer use this institution again. New accounts have been opened with another financial institution who guarantees to provide tax dollars surety bonds. Personnel will check accounts daily to secure deposits exceeding accounts \$100,000. This has been placed in writing.

MCCRACKEN COUNTY
FRANK AUGUSTUS, SHERIFF
COMMENTS AND RECOMMENDATIONS
As of July 24, 2001
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITIONS:

None.

PRIOR YEAR FINDINGS:

- The Sheriff Should Require The Depository Institution To Pledge Or Provide Additional Collateral Of \$1,825,290 And Enter Into A Written Account To Protect Deposits
- The Sheriff Shall Pay Board Of Education Proper Share Of Interest Earned On Investment Of School Taxes

All prior year comments are unresolved.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

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Members of the McCracken County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the McCracken County Sheriff's Settlement - 2000 Taxes as of July 24, 2001, and have issued our report thereon dated September 14, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the McCracken County Sheriff's Settlement - 2000 Taxes as of July 24, 2001 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying comments and recommendations.

- The Sheriff Should Settle With The Taxing Districts For 1999 and 2000 Taxes
- The Sheriff Should Remit \$18,720 To The School Districts For Interest Earned On The Investment Of School Taxes
- The Sheriff Should Require The Depository Institution To Pledge Or Provide Additional Collateral Of \$13,273,525 And Enter Into A Written Agreement To Protect Deposits

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the McCracken County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
September 14, 2001

